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TAGS: [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [PGOV](#) [RS](#)
SUBJECT: SVERSTAL,S MORDASHOV OPTIMISTIC ON GEORGIA AND THE
ECONOMY; LESS SO ON WTO ACCESSION

Classified By: Ambassador John R. Beyrle for Reasons 1.5 (b) and (d).

Summary

¶1. (C) Sverstal's CEO Alexander Mordashov told the Ambassador September 18 that he was confident U.S.-Russia relations would improve; the relationship was too strategically important for tensions to persist and as tempers calmed, it might be possible to find a compromise in the South Caucasus. Mordashov also said he remained optimistic about the Russian economy despite the financial crisis but admitted that he was starting to see a fall off in steel orders from some sectors of the economy. Mordashov said he was increasingly pessimistic about Russia's WTO accession, which he said was in everyone's best interests and which he claimed the GOR still wanted. End Summary.

Georgia and U.S.-Russia Relations

¶2. (C) The Ambassador congratulated Mordashov on the success of Sverstal and its investments in the U.S. Under Mordashov, it had become a model Russian company. The Ambassador stressed the importance of economic ties as a shock absorber in the bilateral relationship but noted that recent political decisions by Russia had posed a risk to those growing business ties and produced a period of "cooler" relations.

¶3. (C) Mordashov responded that he was optimistic about U.S.-Russia relations despite the current tensions. U.S.-Russia relations were simply too important, and the people had too much in common, including cultural similarities, for relations to remain strained. He added that as a major investor in the U.S., with billions of dollars on the line, he had a stake in American success and that American investors in Russia felt the same way toward Russia's success.

¶4. (C) Mordashov said Russians and Americans were both pragmatic peoples, though that was not always reflected in their foreign policies. It was none of Russia's business, for instance, who is the President of Georgia. However, at the same time, the U.S. response also made no sense. Russian peacekeepers had been attacked and killed; what would the U.S. response have been if that had happened in Kosovo to American peacekeepers?

¶5. (C) The Ambassador responded that we understood the Russian position but that Russia had overreached by attacking Georgia proper and recognizing South Ossetia and Abkhazia. Russian withdrawal from Georgia proper was a necessary first

step in repairing the damage that had been done to Russia's reputation and to its relations with the U.S. and Europe.

¶6. (C) Mordashov said he was not an expert in foreign policy but that he had asked experts, including high-level GOR officials, about Russia's goals in Georgia. They had all assured him that Russia had no designs on Georgia proper and was withdrawing its forces. Mordashov added that in his view, South Ossetia and Abkhazia were not strategically important. They had now acquired some symbolic value, but that would fade over time and allow for a compromise on status.

Russia's Financial Crisis

¶7. (C) Mordashov told the Ambassador that he also remained optimistic about the Russian economy despite the recent problems in the financial system. However, he admitted to being more concerned now than a few weeks ago. He could talk authoritatively about the demand for steel, which was a useful measure of economic performance. Demand had risen 12 percent last year and there was a still healthy 8 percent increase this year. However, in recent weeks he had seen for the first time in several years customers, especially in the construction industry, cutting back on orders. They were having trouble getting the financing needed to finish projects or start new ones.

¶8. (C) The Ambassador asked about Sverstal's stock buy-back program. Mordashov said he had just started it that week. He had devoted \$400 million in cash to the program, which was designed to support the company's share price.

WTO Accession

¶9. (C) Mordashov said he remained engaged with his U.S. counterparts, including Chevron CEO O'Reilly, in pressing for Russia's early WTO accession. Accession would be a huge breakthrough for Russia and for its trade partners. There had been a great deal of progress this year and accession was very close. However, since the Georgian conflict it seemed that momentum was now slowing. This was a great disappointment. He said the U.S. should press Georgia to accept accession; it was in their interest as well.

¶10. (C) The Ambassador responded that it was still our goal to see Russia in the WTO but that the current situation in Georgia made that difficult. However, resolving outstanding issues required compromise and given the strains in the relationship, compromise was harder to come by. In addition, it was not clear to us that this was still a GOR goal. Through its recent rhetoric and by seeking to reopen bilateral trade agreements, the Russian Government appeared to us to be signaling it was less interested in accession.

¶11. (C) Mordashov said Putin and Medvedev were internationalists and still understood that accession was in Russia's best long-term interests. However, they were reacting emotionally to a real feeling of frustration and disappointment. Russia's WTO negotiations had now been going on even longer than had China's and there was a growing sense in the GOR that the process was endless. Every time one problem was solved, another one cropped up. It was human nature to respond to disappointment in this manner: if you don't want me, then I don't want you either.

¶12. (C) Mordashov added that if the U.S. was not pushing accession it would not get done; it was in effect blocking accession. Moreover, the continuing failure to accede was playing into the hands of WTO opponents and anti-Western elements within the government. These individuals were using the failure to press for self-serving trade barriers and unaffordable subsidies for agriculture and other industries

that would make accession even more difficult in the future. What was needed was a high-level meeting between the EU, the U.S. and Russia that would produce a grand compromise paving the way for accession.

Comment

¶13. (C) Like other economic liberals, Mordashov appears to be speaking out a bit more on the need for compromise in the South Caucasus and for reduced tensions with the U.S. and the West. Given his ties to Prime Minister Putin, if he is indeed pushing this line, it is good news.
BEYRLE